

## Stone's Weekly Market Guide - Week of August 12, 2018



**Chart of the Week:** Fundamentals are the primary driver of the plunge in the Turkish currency (TRY) and the spike in the cost to insure against default (CDS). The Turkish central bank has not taken significant action to defend the currency via rate increases. Inflation has been rising and Turkey runs a high current account deficit. Entities in Turkey also borrow significantly in foreign currency, so weakness in the TRY raises costs and increases financial system stresses. Banks in Spain, France and Italy have the largest exposure to Turkish debt which explains the euro weakness last week. Global markets fear contagion, but that risk seems limited currently.

### Week in Preview:

- Markets will continue to watch for additional trade news. Last week, the U.S. placed additional tariffs on steel and aluminum from Turkey which added to the pressure on the Turkish financial system (see the Chart of the Week), but weak Turkish fundamentals are primarily to blame for their woes.
- Main report out of the U.S. is July retail sales to get a read on the pulse of the consumer. The headline reading is expected to slow to 0.1% month-over-month (M/M), but excluding autos and gasoline should accelerate to 0.4% M/M. July housing data is also on tap with housing starts and building permits expected to increase. 3Q GDP estimates from the Atlanta and NY Fed are 4.32% and 2.57% respectively.
- 91% of S&P 500 companies have reported 2Q earnings, but 13 S&P 500 companies are scheduled this week. The S&P 500 earnings growth rate increased to about 24.5% year-over-year (Y/Y) and the sales growth rate held steady at almost 10% Y/Y. 79% and 72% of companies beat earnings and sales respectively so far in this reporting period. Given the limited number of companies yet to report, this quarter's impressive earnings growth rate is almost sure to end up being the second fastest since Q3 2010.
- Europe: The Eurozone and Germany report 2Q GDP with both expected at 2.1% Y/Y. The German August ZEW Investor Confidence survey will be watched, especially in the wake of Turkey. U.K. releases their monthly labor reports and July retail sales. Brexit negotiations resume with the currency market signaling its concern about the chances of reaching a deal. The British currency (GBP) has posted 5 straight weekly declines against the U.S. dollar.
- Asia: Japan reports July trade data. China has July retail sales, industrial production and fixed assets.
- The central banks of Uganda, Indonesia, Namibia, Norway and Egypt meet with all expected to hold their policy rates steady.

### Week in Review:

- The S&P 500 was lower, but small cap stocks were higher for the week. Both developed international and emerging market stocks declined. The U.S. dollar was particularly strong last week which weighed heavily on international returns for unhedged investors. The 10-year U.S. Treasury yield fell to 2.87%.
- The 10-2 yield curve flattened last week to 26.5 basis points, and our improved measure of 3 month 6 quarters forward – 3 month flattened to 73 basis points. Please see our recent [post](#) for more details on the economic and financial market implications.

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